

CITY OF HARTLEY

INDEPENDENT AUDITOR'S REPORTS

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

JUNE 30, 2006

NEWS RELEASE

FOR RELEASE

Hunzelman, Putzier & Co., PLC today released an audit report on the City of Hartley, Iowa.

Hunzelman, Putzier & Co., PLC reported that the City of Hartley's receipts totaled \$4,400,266 for the year ended June 30, 2006, a twenty four percent decrease from 2005. The receipts included \$257,032 in property tax, \$252,592 in increment financing collections, \$105,092 in local option sales tax, \$263,238 from operating grants, contributions, and restricted interest, \$122,818 from capital grants, contributions, and restricted interest, \$2,853,795 from charges for services, \$114,945 in interest on investments, \$10,920 in special assessments, \$38,545 in sale of assets, \$364,823 in note proceeds, and \$16,466 in other general receipts.

Disbursements for the year totaled \$4,427,474, a seventeen percent decrease from the prior year, and included \$198,068 for public safety, \$186,992 for culture and recreation, and \$137,104 for community and economic development. Also, disbursements for business type activities totaled \$3,643,979.

This report contains recommendations to the City Council and their indicated responses to the recommendations.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

CITY OF HARTLEY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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CITY OF HARTLEY

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
<u>(Before January, 2006)</u>		
Rodney Ahrenstorff	Mayor	January, 2006
Blayne Johnson	Council Member	January, 2006
Bradley Meendering	Council Member	January, 2006
Clayton Pyle	Council Member	January, 2006
Dan Mohni	Council Member	January, 2008
Pam Sease	Council Member	January, 2008
Paula Kay Cmelik	City Clerk/Administrator	Indefinite
Mike Thole	Attorney	Indefinite
<u>(After January, 2006)</u>		
Rodney Ahrenstorff	Mayor	January, 2008
Dan Mohni	Council Member	January, 2008
Pam Sease	Council Member	January, 2008
Ian Coburn	Council Member	January, 2010
Jerry Olson	Council Member	January, 2010
Ann Petersen	Council Member	January, 2010
Paula Kay Cmelik	City Clerk/Administrator	Indefinite
Mike Houchins	Attorney (Appointed February, 2006)	Indefinite

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Hartley, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Hartley's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2006, on our consideration of City of Hartley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 21 through 22 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

City of Hartley, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Hartley's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungelman, Putzier & Co.

August 30, 2006

CITY OF HARTLEY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit A

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental Activities							
Public safety	\$ 198,068	\$ 56,495	\$ 12,861	\$ -	\$ (128,712)	\$ -	\$ (128,712)
Public works	121,779	11,875	145,096	-	35,192	-	35,192
Culture and recreation	186,992	46,000	9,281	-	(131,711)	-	(131,711)
Community and economic development	137,104	-	-	122,818	(14,286)	-	(14,286)
General government	82,092	-	-	-	(82,092)	-	(82,092)
Debt service	57,460	-	-	-	(57,460)	-	(57,460)
Total governmental activities	783,495	114,370	167,238	122,818	(379,069)	-	(379,069)
Business type activities							
Water	269,814	215,482	-	-	-	(54,332)	(54,332)
Sewer	854,868	200,147	96,000	-	-	(558,721)	(558,721)
Electric	1,198,407	995,370	-	-	-	(203,037)	(203,037)
Gas	1,071,265	1,049,172	-	-	-	(22,093)	(22,093)
Solid waste	99,278	114,492	-	-	-	15,214	15,214
Consumer deposit	19,346	21,184	-	-	-	1,838	1,838
Cable	131,001	143,578	-	-	-	12,577	12,577
Total business type activities	3,643,979	2,739,425	96,000	-	-	(808,554)	(808,554)
Total	\$ 4,427,474	\$ 2,853,795	\$ 263,238	\$ 122,818	(379,069)	(808,554)	(1,187,623)
General Receipts:							
Property tax levied for:							
General purposes					257,032	-	257,032
Tax increment financing					252,592	-	252,592
Local option sales tax					105,092	-	105,092
Unrestricted interest on investments					57,355	57,590	114,945
Special assessments					10,920	-	10,920
Sale of assets					18,720	19,825	38,545
State revolving loan funds					-	364,823	364,823
Miscellaneous					16,466	-	16,466
Transfers					(155,839)	155,839	-
Total general receipts and transfers					562,338	598,077	1,160,415

(Continued)

CITY OF HARTLEY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit A
(Continued)

	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Charges for	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities
	<u>Disbursements</u>	<u>Service</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
Change in cash basis net assets				\$ 183,269	\$ (210,477) \$ (27,208)
Cash basis net assets beginning of year				<u>1,083,326</u>	<u>2,523,663</u> <u>3,606,989</u>
Cash basis net assets end of year				<u>\$ 1,266,595</u>	<u>\$ 2,313,186</u> <u>\$3,579,781</u>
Cash Basis Net Assets					
Restricted:					
Streets				\$ 238,166	\$ - \$ 238,166
Tax increment financing projects				147,480	- 147,480
Debt service				59,309	740,801 800,110
Other purposes				196,914	- 196,914
Unrestricted				<u>624,726</u>	<u>1,572,385</u> <u>2,197,111</u>
Total cash basis net assets				<u>\$ 1,266,595</u>	<u>\$ 2,313,186</u> <u>\$3,579,781</u>

See notes to financial statements.

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit B

	General	Special Revenue			Other Non-major Governmental Funds	Total
		Road Use	Tax Increment Financing	Library Expendable Trust		
Receipts:						
Property taxes	\$ 170,758	\$ -	\$ -	\$ -	\$ 86,274	\$ 257,032
Tax increment financing	-	-	252,592	-	-	252,592
Other city tax	-	-	-	-	105,092	105,092
Licenses and permits	2,504	-	-	-	-	2,504
Use of money and property	63,967	-	-	7,334	-	71,301
Intergovernmental	23,871	145,096	-	-	122,818	291,785
Charges for service	76,163	-	-	-	-	76,163
Special assessments	1,958	-	-	-	8,962	10,920
Miscellaneous	34,994	-	-	460	1,040	36,494
Total receipts	<u>374,215</u>	<u>145,096</u>	<u>252,592</u>	<u>7,794</u>	<u>324,186</u>	<u>1,103,883</u>
Disbursements:						
Operating:						
Public safety	198,068	-	-	-	-	198,068
Public works	52,124	69,655	-	-	-	121,779
Culture and recreation	166,557	-	-	20,435	-	186,992
Community and economic development	538	-	-	-	136,566	137,104
General government	82,092	-	-	-	-	82,092
Debt service	-	-	-	-	57,460	57,460
Total disbursements	<u>499,379</u>	<u>69,655</u>	<u>-</u>	<u>20,435</u>	<u>194,026</u>	<u>783,495</u>
Excess (deficiency) of receipts over disbursements	<u>(125,164)</u>	<u>75,441</u>	<u>252,592</u>	<u>(12,641)</u>	<u>130,160</u>	<u>320,388</u>
Other financing sources (uses):						
Sale of capital assets	18,720	-	-	-	-	18,720
Operating transfers in	109,634	-	-	-	43,860	153,494
Operating transfers out	-	-	(176,968)	-	(132,365)	(309,333)
Total other financing sources (uses)	<u>128,354</u>	<u>-</u>	<u>(176,968)</u>	<u>-</u>	<u>(88,505)</u>	<u>(137,119)</u>
Net change in cash balances	3,190	75,441	75,624	(12,641)	41,655	183,269
Cash balances beginning of year	<u>332,238</u>	<u>162,725</u>	<u>71,856</u>	<u>301,939</u>	<u>214,568</u>	<u>1,083,326</u>
Cash balances end of year	<u>\$ 335,428</u>	<u>\$ 238,166</u>	<u>\$ 147,480</u>	<u>\$ 289,298</u>	<u>\$ 256,223</u>	<u>\$ 1,266,595</u>

(Continued)

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit B
(Continued)

	<u>Special Revenue</u>					
	General	Road Use	Tax Increment Financing	Library Expendable Trust	Other Non-major Governmental Funds	Total
Cash Basis Fund Balances						
Unreserved:						
General	\$ 335,428	\$ -	\$ -	\$ -	\$ -	\$ 335,428
Special revenue	-	238,166	147,480	289,298	108,482	783,426
Debt service	-	-	-	-	59,309	59,309
Permanent	-	-	-	-	88,432	88,432
Total cash basis fund balances	<u>\$ 335,428</u>	<u>\$ 238,166</u>	<u>\$ 147,480</u>	<u>\$ 289,298</u>	<u>\$ 256,223</u>	<u>\$1,266,595</u>

See notes to financial statements.

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit C

	Sewer	Electric	Gas	Cable	Other Non-major Proprietary Funds	Total
Operating Receipts:						
Use of money and property	\$ -	\$ 1,060	\$ -	\$ -	\$ 2,235	\$ 3,295
Charges for service	198,359	988,782	1,016,019	25,775	325,286	2,554,221
Miscellaneous	<u>1,788</u>	<u>5,528</u>	<u>33,153</u>	<u>117,803</u>	<u>23,637</u>	<u>181,909</u>
Total operating receipts	200,147	995,370	1,049,172	143,578	351,158	2,739,425
Operating Disbursements:						
Business type activities	<u>740,806</u>	<u>999,104</u>	<u>1,007,575</u>	<u>12,621</u>	<u>352,803</u>	<u>3,112,909</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>(540,659)</u>	<u>(3,734)</u>	<u>41,597</u>	<u>130,957</u>	<u>(1,645)</u>	<u>(373,484)</u>
Non-operating receipts (disbursements):						
Intergovernmental	96,000	-	-	-	-	96,000
Interest on investments	6,046	38,309	5,021	2,468	5,746	57,590
State revolving loan funds	364,823	-	-	-	-	364,823
Sale of capital assets	-	19,825	-	-	-	19,825
Debt service	<u>(114,062)</u>	<u>(199,303)</u>	<u>(63,690)</u>	<u>(118,380)</u>	<u>(35,635)</u>	<u>(531,070)</u>
Total non-operating receipts (disbursements)	<u>352,807</u>	<u>(141,169)</u>	<u>(58,669)</u>	<u>(115,912)</u>	<u>(29,889)</u>	<u>7,168</u>
Excess (deficiency) of receipts over disbursements	<u>(187,852)</u>	<u>(144,903)</u>	<u>(17,072)</u>	<u>15,045</u>	<u>(31,534)</u>	<u>(366,316)</u>
Operating transfers in	176,968	-	-	-	-	176,968
Operating transfers out	<u>-</u>	<u>(10,612)</u>	<u>(10,517)</u>	<u>-</u>	<u>-</u>	<u>(21,129)</u>
	<u>176,968</u>	<u>(10,612)</u>	<u>(10,517)</u>	<u>-</u>	<u>-</u>	<u>155,839</u>
Net change in cash balances	(10,884)	(155,515)	(27,589)	15,045	(31,534)	(210,477)
Cash balances beginning of year	<u>262,029</u>	<u>1,515,682</u>	<u>190,294</u>	<u>237,359</u>	<u>318,299</u>	<u>2,523,663</u>
Cash balances end of year	<u>\$ 251,145</u>	<u>\$ 1,360,167</u>	<u>\$ 162,705</u>	<u>\$ 252,404</u>	<u>\$ 286,765</u>	<u>\$ 2,313,186</u>
Cash Basis Fund Balances						
Reserved for debt service	\$ 11,075	\$ 481,501	\$ -	\$ 168,883	\$ 79,342	\$ 740,801
Unreserved	<u>240,070</u>	<u>878,666</u>	<u>162,705</u>	<u>83,521</u>	<u>207,423</u>	<u>1,572,385</u>
Total cash basis fund balances	<u>\$ 251,145</u>	<u>\$ 1,360,167</u>	<u>\$ 162,705</u>	<u>\$ 252,404</u>	<u>\$ 286,765</u>	<u>\$ 2,313,186</u>

See notes to financial statements.

CITY OF HARTLEY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
FIDUCIARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit D

Agency
Fund- Hart
2020

Receipts:	
Miscellaneous	\$ 20,648
Disbursements:	
Community and economic development	<u>7,743</u>
Net change in cash balances	12,905
Cash balances beginning of year	<u>-</u>
Cash balances end of year	<u>\$ 12,905</u>
Cash Basis Fund Balances	
Reserved:	
Agency fund	<u>\$ 12,905</u>

See notes to financial statements.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Hartley is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1888 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Hartley has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Joint Ventures - City of Hartley has a 54% interest in a joint venture with City of Sanborn to provide garbage collection service. The cities participate in the collection of garbage, which is under the general management of one representative of each City Council. The following information summarizes the activity of the joint venture through June 30, 2006:

Receipts:

Contributions from other governments:	
City of Hartley	\$ 59,400
City of Sanborn	50,600
Rent	1,400
Miscellaneous	149
Interest	238
	<u>111,787</u>

Disbursements:

Salaries	52,804
Benefits	26,207
Workers compensation insurance	4,515
Property insurance	4,807
Diesel fuel	12,706
Truck maintenance and repairs	7,748
Professional fees	334
Contract labor	2,856
Miscellaneous	815
	<u>112,792</u>

Net	(1,005)
Balance, beginning of year	<u>7,480</u>
Balance, end of year	<u>\$ 6,475</u>

City of Hartley has a 54% interest of the assets, property and equipment, equity, and net income.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Reporting Entity - (Continued)

City of Hartley also has a 31.7% interest in a joint venture with the Cities of Paullina, Primghar, and Sanborn to provide cable television, telephone, and internet services. The cities participate in providing services, which is under the general management of one representative of each City Council. The City's share of equity in this organization as of June 30, 2006, is \$222,483.

Jointly Governed Organizations - The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint representatives to the following boards and commissions: O'Brien County Emergency Management Commission, O'Brien County E911 Service Board, O'Brien County Assessor's Conference Board, and Northwest Iowa Area Solid Waste Agency. Payments made to Northwest Iowa Area Solid Waste Agency during the year ended June 30, 2006, were \$16,550.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for projects financed by tax increment financing.

The Library Expendable Trust Fund is used to account for contributions from citizens to be used for library projects.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The Cable Fund accounts for receipts and disbursements from the City's cable television system as maintained by Community Cable Television Agency of O'Brien County.

The City also reports the following fiduciary fund:

The Agency fund is used to account for fiduciary assets held by the City in a custodial capacity or as an agent on behalf of others.

C. Measurement Focus and Basis of Accounting

City of Hartley maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2006, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 40.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

3. NOTES PAYABLE

Annual debt service requirements to maturity for revenue, general obligation, and special assessment notes are as follows:

Year Ending June 30,	<u>Revenue Notes</u>		<u>Revenue Capital Loan Notes</u>		<u>General Obligation Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 92,000	\$ 69,315	\$ 185,000	\$130,503	\$30,000	\$12,540
2008	93,000	66,375	195,000	122,707	35,000	11,190
2009	96,000	63,303	200,000	114,203	35,000	9,580
2010	98,000	60,070	210,000	105,230	35,000	7,935
2011	100,000	56,697	220,000	95,442	40,000	6,255
2012-2016	554,000	227,272	1,270,000	305,236	85,000	6,590
2017-2021	543,000	122,620	515,000	36,983	-	-
2022-2025	430,000	35,588	-	-	-	-
Total	<u>\$2,006,000</u>	<u>\$701,240</u>	<u>\$2,795,000</u>	<u>\$910,304</u>	<u>\$260,000</u>	<u>\$54,090</u>

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

3. NOTES PAYABLE - (Continued)

Year Ending June 30,	<u>Special Assessment Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$10,000	\$2,055	\$ 317,000	\$ 214,413
2008	10,000	1,480	333,000	201,752
2009	10,000	895	341,000	187,981
2010	10,000	300	353,000	173,535
2011	-	-	360,000	158,394
2012-2016	-	-	1,909,000	539,098
2017-2021	-	-	1,058,000	159,603
2022-2025	-	-	430,000	35,588
Total	<u>\$40,000</u>	<u>\$4,730</u>	<u>\$5,101,000</u>	<u>\$1,670,364</u>

The resolutions providing for the issuance of revenue notes include the following provisions:

- A. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to separate electric, water, and telecommunication revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- C. The City is to establish separate Electric, Water, and Telecommunication, Principal and Interest Reserve Accounts into which there shall be set apart and paid at the time of delivery of the obligations the sum of \$190,000 for electric and \$40,000 for water. Sufficient monthly transfers shall be made to the telecommunication reserve account in an amount equal to twenty five percent of the monthly sinking fund transfers.
- D. Additional monthly transfers of \$1,650 to the Electric Improvement Fund and \$1,000 to the Water Improvement Fund shall be made until the sum of \$150,000 and \$36,000 has been accumulated, respectively. These accounts are restricted for the purpose of paying for necessary repairs, improvements, and extensions to the system.

4. OPERATING LEASE

The city leases a copier system. Rental expense incurred for this lease was \$3,293 for the year ended June 30, 2006. Minimum amounts payable under this operating lease are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2007	\$3,293
2008	1,098

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

5. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$33,184, \$33,319, and \$32,837 respectively, equal to the required contributions for each year.

6. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2006, primarily relating to the Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 23,542
Sick leave	<u>174,466</u>
Total	<u>\$198,008</u>

Sick leave is payable when used or upon retirement or death. If paid upon retirement or death, the total accumulated hours are paid at the then effective hourly rate for that employee. This liability has been computed based on rates of pay at June 30, 2006.

7. INTERGOVERNMENTAL AGREEMENTS

The City has entered into an agreement with Northwest Iowa Area Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste from within the City. Payments under this agreement were \$16,550 for the year ended June 30, 2006.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and postclosure costs to the agency have been estimated at \$1,919,300 as of June 30, 2005, and the Agency has begun to accumulate resources to fund these costs. As of June 30, 2005, deposits of \$1,128,220 are held for these purposes. No estimate has been made regarding the effect of future assessments to the City.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

8. EQUITY IN COOPERATIVE

City of Hartley is a member of the Missouri Basin Municipal Electric Cooperative Association. The City's share of equity in this cooperative at June 30, 2006, consists of the following:

Transmission capacity	\$326,694
Members' advances for transmission capacity	196,681
Other members' capital	14,328
Membership	100
	<u>\$537,803</u>

Transmission Capacity - Transmission capacity is stated at cost and consists of contributions made under the Transmission Agreement for the NIPCO transmission system. Transmission capacity is being amortized on a straight-line basis over thirty-five years.

Members' Advances for Transmission Capacity - Members' advances for transmission capacity consist of contributions by the members and net interest earned on investments allocated to the members. These advances from the participating Transmission Members are being held for future transmission capacity contributions by the Association in its capacity as agent for these members.

Other Members' Capital - Other members' capital consists of patronage dividends declared by NIPCO, but unpaid.

9. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefit	\$ 78,505
	Local Option Sales Tax	10,000
	Enterprise:	
	Electric	10,612
	Gas	10,517
Debt Service	Special Revenue:	
	Local Option Sales Tax	43,860
Sewer	Special Revenue:	
	Tax Increment Financing	<u>176,968</u>
		<u>\$330,462</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

10. RISK MANAGEMENT

City of Hartley is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF HARTLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

11. PROMISSORY NOTES

On April 6, 1998, City of Hartley received two promissory notes from Hartley Housing Associates, Limited Partnership, in the amounts of \$40,000 and \$30,000 with interest at two percent and one percent, respectively. Repayment terms are \$2,049 and \$2,164 annually respectively, beginning May 1, 1999, with final payment coming due on May 1, 2013. However, because of limited "surplus cash" available there has only been one payment made on each of these notes since inception. The note agreement does allow this to occur but does stipulate that any unpaid portion shall accrue interest. These notes are secured by mortgages on residential lots owned by the borrower. The funds are to be used to develop affordable rental housing.

12. CONSTRUCTION CONTRACTS AND COMMITMENTS

The City has entered into the following contracts which were not completed as of June 30, 2006.

<u>Project</u>	<u>Total Contract Amount</u>	<u>Amount Paid As of 6-30-06</u>	<u>Remaining Commitment As of 6-30-06</u>
Water Treatment Plant	\$77,700	\$48,118	\$29,582
Electric Distribution Improvement	76,972	-	76,972

The remaining commitments on these projects will be financed with funds on hand.

13. ASSISTED LIVING FACILITY REVENUE BONDS

The City has approved issuing up to \$1,400,000 of assisted living facility revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$593,596 is outstanding at June 30, 2006. The bonds and related interest are payable solely from the revenues of Community Memorial Health Center Association and do not constitute liabilities of the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARTLEY
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 257,032	\$ -	\$ 257,032	\$ 258,004	\$ 258,004	\$ (972)
Tax increment financing collections	252,592	-	252,592	190,000	190,000	62,592
Other city tax	105,092	-	105,092	98,000	98,000	7,092
Licenses and permits	2,504	-	2,504	1,975	1,975	529
Use of money and property	71,301	60,885	132,186	73,781	99,633	32,553
Intergovernmental	291,785	96,000	387,785	273,645	484,654	(96,869)
Charges for service	76,163	2,554,221	2,630,384	2,493,700	2,801,250	(170,866)
Special assessments	10,920	-	10,920	19,500	10,500	420
Miscellaneous	36,494	181,909	218,403	244,177	230,072	(11,669)
Total receipts	<u>1,103,883</u>	<u>2,893,015</u>	<u>3,996,898</u>	<u>3,652,782</u>	<u>4,174,088</u>	<u>(177,190)</u>
Disbursements:						
Public safety	198,068	-	198,068	204,102	221,472	23,404
Public works	121,779	-	121,779	368,931	324,955	203,176
Health and social services	-	-	-	-	10,000	10,000
Culture and recreation	186,992	-	186,992	213,503	233,130	46,138
Community and economic development	137,104	-	137,104	245,538	245,538	108,434
General government	82,092	-	82,092	115,593	115,593	33,501
Debt service	57,460	-	57,460	57,460	57,460	-
Business type activities	-	3,643,979	3,643,979	3,247,704	3,829,484	185,505
Total disbursements	<u>783,495</u>	<u>3,643,979</u>	<u>4,427,474</u>	<u>4,452,831</u>	<u>5,037,632</u>	<u>610,158</u>
Excess (deficiency) of receipts over disbursements	320,388	(750,964)	(430,576)	(800,049)	(863,544)	432,968
Other financing sources (uses), net	<u>(137,119)</u>	<u>540,487</u>	<u>403,368</u>	<u>-</u>	<u>364,823</u>	<u>38,545</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	183,269	(210,477)	(27,208)	(800,049)	(498,721)	471,513
Balances, beginning of year	<u>1,083,326</u>	<u>2,523,663</u>	<u>3,606,989</u>	<u>3,037,509</u>	<u>3,037,509</u>	<u>569,480</u>
Balances, end of year	<u>\$ 1,266,595</u>	<u>\$ 2,313,186</u>	<u>\$3,579,781</u>	<u>\$ 2,237,460</u>	<u>\$ 2,538,788</u>	<u>\$ 1,040,993</u>

See accompanying independent auditor's report.

CITY OF HARTLEY
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGETARY REPORTING
JUNE 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities, and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$521,306 and disbursements by \$584,801. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HARTLEY
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Schedule 1

	Special Revenue				Debt Service		Permanent	
	Employee	Local	Economic	Owner	Library	Central	Cemetery	
	Benefits	Option	Development	Occupied	Expansion	Avenue	Perpetual	Total
		Sales Tax		Rehab		Improvement	Care	
Receipts:								
Property taxes	\$ 86,274	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86,274
Other city tax	-	105,092	-	-	-	-	-	105,092
Intergovernmental	-	-	-	122,818	-	-	-	122,818
Special assessments	-	-	-	-	-	8,962	-	8,962
Miscellaneous	-	-	-	-	-	-	1,040	1,040
Total receipts	<u>86,274</u>	<u>105,092</u>	<u>-</u>	<u>122,818</u>	<u>-</u>	<u>8,962</u>	<u>1,040</u>	<u>324,186</u>
Disbursements:								
Community and economic development	-	-	24,858	111,708	-	-	-	136,566
Debt service	-	-	-	-	44,260	13,200	-	57,460
Total disbursements	<u>-</u>	<u>-</u>	<u>24,858</u>	<u>111,708</u>	<u>44,260</u>	<u>13,200</u>	<u>-</u>	<u>194,026</u>
Excess (deficiency) of receipts over disbursements	<u>86,274</u>	<u>105,092</u>	<u>(24,858)</u>	<u>11,110</u>	<u>(44,260)</u>	<u>(4,238)</u>	<u>1,040</u>	<u>130,160</u>
Other financing sources (uses):								
Operating transfers in	-	-	-	-	43,860	-	-	43,860
Operating transfers out	(78,505)	(53,860)	-	-	-	-	-	(132,365)
Total other financing sources (uses)	<u>(78,505)</u>	<u>(53,860)</u>	<u>-</u>	<u>-</u>	<u>43,860</u>	<u>-</u>	<u>-</u>	<u>(88,505)</u>
Net change in cash balances	7,769	51,232	(24,858)	11,110	(400)	(4,238)	1,040	41,655
Cash balances beginning of year	<u>8,010</u>	<u>20,275</u>	<u>30,552</u>	<u>4,392</u>	<u>34,065</u>	<u>29,882</u>	<u>87,392</u>	<u>214,568</u>
Cash balances end of year	<u>\$ 15,779</u>	<u>\$ 71,507</u>	<u>\$ 5,694</u>	<u>\$ 15,502</u>	<u>\$ 33,665</u>	<u>\$ 25,644</u>	<u>\$ 88,432</u>	<u>\$ 256,223</u>
Cash Basis Fund Balances								
Unreserved:								
Special Revenue	\$ 15,779	\$ 71,507	\$ 5,694	\$ 15,502	\$ -	\$ -	\$ -	\$ 108,482
Debt service	-	-	-	-	33,665	25,644	-	59,309
Permanent	-	-	-	-	-	-	88,432	88,432
Total cash basis fund balances	<u>\$ 15,779</u>	<u>\$ 71,507</u>	<u>\$ 5,694</u>	<u>\$ 15,502</u>	<u>\$ 33,665</u>	<u>\$ 25,644</u>	<u>\$ 88,432</u>	<u>\$ 256,223</u>

See accompanying independent auditor's report.

CITY OF HARTLEY
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Schedule 2

	<u>Water</u>	<u>Solid Waste</u>	<u>Consumer Deposit</u>	<u>Total</u>
Operating receipts:				
Use of money and property	\$ -	\$ 2,235	\$ -	\$ 2,235
Charges for service	214,413	110,873	-	325,286
Miscellaneous	<u>1,069</u>	<u>1,384</u>	<u>21,184</u>	<u>23,637</u>
Total operating receipts	215,482	114,492	21,184	351,158
Operating disbursements:				
Business type activities	<u>234,179</u>	<u>99,278</u>	<u>19,346</u>	<u>352,803</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(18,697)</u>	<u>15,214</u>	<u>1,838</u>	<u>(1,645)</u>
Non-operating receipts (disbursements)				
Interest on investments	5,310	436	-	5,746
Debt service	<u>(35,635)</u>	<u>-</u>	<u>-</u>	<u>(35,635)</u>
Total non-operating receipts (disbursements)	<u>(30,325)</u>	<u>436</u>	<u>-</u>	<u>(29,889)</u>
Net change in cash balances	(49,022)	15,650	1,838	(31,534)
Cash balances beginning of year	<u>256,912</u>	<u>24,839</u>	<u>36,548</u>	<u>318,299</u>
Cash balances end of year	<u>\$ 207,890</u>	<u>\$ 40,489</u>	<u>\$ 38,386</u>	<u>\$ 286,765</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ 79,342	\$ -	\$ -	\$ 79,342
Unreserved	<u>128,548</u>	<u>40,489</u>	<u>38,386</u>	<u>207,423</u>
Total cash basis fund balances	<u>\$ 207,890</u>	<u>\$ 40,489</u>	<u>\$ 38,386</u>	<u>\$ 286,765</u>

See accompanying independent auditor's report.

CITY OF HARTLEY
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2006

Schedule 3

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning Of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End Of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
Revenue Notes:									
Water	November 1, 2003	2.65 - 5.20%	\$ 400,000	\$ 360,000	\$ -	\$ 20,000	\$ 340,000	\$ 15,635	-
Sewer	July 20, 2004	3.00%	1,300,000	1,300,000	-	48,000	1,252,000	39,172	-
Sewer	December 2, 2004	3.00%	<u>432,000</u>	<u>65,177</u>	<u>364,823</u>	<u>16,000</u>	<u>414,000</u>	<u>10,890</u>	<u>-</u>
			<u>\$ 2,132,000</u>	<u>\$ 1,725,177</u>	<u>\$ 364,823</u>	<u>\$ 84,000</u>	<u>\$ 2,006,000</u>	<u>\$ 65,697</u>	<u>\$ -</u>
Revenue Capital Loan Notes:									
Electric	February 1, 2001	4.90 - 5.55%	\$ 1,900,000	\$ 1,745,000	\$ -	\$ 110,000	\$ 1,635,000	\$ 89,302	\$ -
Telecommunication	March 1, 2004	2.30 - 4.90%	<u>1,300,000</u>	<u>1,230,000</u>	<u>-</u>	<u>70,000</u>	<u>1,160,000</u>	<u>48,380</u>	<u>-</u>
			<u>\$ 3,200,000</u>	<u>\$ 2,975,000</u>	<u>\$ -</u>	<u>\$ 180,000</u>	<u>\$ 2,795,000</u>	<u>\$ 137,682</u>	<u>\$ -</u>
General Obligation Notes:									
Library	June 1, 2001	4.40 - 5.10%	<u>\$ 400,000</u>	<u>\$ 290,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 260,000</u>	<u>\$ 13,860</u>	<u>\$ -</u>
Special Assessment:									
Street Improvement	September 1, 2000	5.60 - 6.00%	<u>\$ 92,000</u>	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 40,000</u>	<u>\$ 2,900</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF HARTLEY
NOTE MATURITIES
JUNE 30, 2006

Schedule 4

Year Ending June 30.	Revenue Notes						Special Assessment	Capital Loan Notes				General Obligation			
	Water Notes		Sewer Notes		Sewer Notes		Street Improvement	Electric Notes		Telecommunication Notes		Library Notes			
	Issued November 1, 2003		Issued July 20, 2004		Issued December 2, 2004		Issued September 1, 2000	Issued February 1, 2001		Issued March 1, 2004		Issued June 1, 2001			
	Interest		Interest		Interest		Interest		Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Total
2007	3.05%	\$ 25,000	3.00%	\$ 50,000	3.00%	\$ 17,000	5.70%	\$ 10,000	5.00%	\$ 115,000	2.70%	\$ 70,000	4.50%	\$ 30,000	\$ 317,000
2008	3.45	25,000	3.00	51,000	3.00	17,000	5.80	10,000	5.05	120,000	3.05	75,000	4.60	35,000	333,000
2009	3.70	25,000	3.00	53,000	3.00	18,000	5.90	10,000	5.10	125,000	3.25	75,000	4.70	35,000	341,000
2010	4.00	25,000	3.00	55,000	3.00	18,000	6.00	10,000	5.15	130,000	3.50	80,000	4.80	35,000	353,000
2011	4.25	25,000	3.00	56,000	3.00	19,000	-	-	5.20	140,000	3.70	80,000	4.90	40,000	360,000
2012	4.45	25,000	3.00	58,000	3.00	19,000	-	-	5.25	145,000	3.85	85,000	5.00	40,000	372,000
2013	4.60	30,000	3.00	60,000	3.00	20,000	-	-	5.30	155,000	4.00	85,000	5.10	45,000	395,000
2014	4.75	30,000	3.00	61,000	3.00	20,000	-	-	5.40	165,000	4.15	90,000	-	-	366,000
2015	4.90	30,000	3.00	63,000	3.00	21,000	-	-	5.45	170,000	4.30	95,000	-	-	379,000
2016	5.00	30,000	3.00	65,000	3.00	22,000	-	-	5.50	180,000	4.45	100,000	-	-	397,000
2017	5.10	35,000	3.00	67,000	3.00	22,000	-	-	5.55	190,000	4.60	105,000	-	-	419,000
2018	5.20	35,000	3.00	69,000	3.00	23,000	-	-	-	-	4.75	105,000	-	-	232,000
2019	-	-	3.00	71,000	3.00	24,000	-	-	-	-	4.90	115,000	-	-	210,000
2020	-	-	3.00	73,000	3.00	24,000	-	-	-	-	-	-	-	-	97,000
2021	-	-	3.00	75,000	3.00	25,000	-	-	-	-	-	-	-	-	100,000
2022	-	-	3.00	78,000	3.00	26,000	-	-	-	-	-	-	-	-	104,000
2023	-	-	3.00	80,000	3.00	26,000	-	-	-	-	-	-	-	-	106,000
2024	-	-	3.00	82,000	3.00	27,000	-	-	-	-	-	-	-	-	109,000
2025	-	-	3.00	85,000	3.00	26,000	-	-	-	-	-	-	-	-	111,000
	<u>\$ 340,000</u>		<u>\$ 1,252,000</u>		<u>\$ 414,000</u>		<u>\$ 40,000</u>		<u>\$ 1,635,000</u>		<u>\$ 1,160,000</u>		<u>\$ 260,000</u>		<u>\$ 5,101,000</u>

See accompanying independent auditor's report.

CITY OF HARTLEY
SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

Schedule 5

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:				
Property tax	\$ 257,032	\$ 258,995	\$ 268,036	\$ 259,089
Tax increment financing collections	252,592	225,368	195,663	190,439
Other city tax	105,092	104,751	100,648	102,318
Licenses and permits	2,504	1,722	2,276	2,078
Use of money and property	71,301	70,569	51,061	25,239
Intergovernmental	291,785	222,787	193,663	183,300
Charges for service	76,163	59,127	58,675	85,040
Special assessments	10,920	14,771	26,674	16,620
Miscellaneous	36,494	328,814	42,931	28,748
Total	<u>\$1,103,883</u>	<u>\$1,286,904</u>	<u>\$ 939,627</u>	<u>\$ 892,871</u>
Disbursements:				
Operating:				
Public safety	\$ 198,068	\$ 239,950	\$ 215,464	\$ 345,606
Public works	121,779	128,081	337,381	164,224
Culture and recreation	186,992	149,383	163,893	171,509
Community and economic development	137,104	64,821	107,193	2,791
General government	82,092	73,675	96,598	89,965
Debt service	57,460	59,300	61,000	67,503
Total	<u>\$ 783,495</u>	<u>\$ 715,210</u>	<u>\$ 981,529</u>	<u>\$ 841,598</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Hartley, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated August 30, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Hartley's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Hartley's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hartley's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing

Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Hartley, and other parties to whom City of Hartley may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Hartley during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script, reading "Hengelman, Ritzler & Co.", positioned to the right of the date.

August 30, 2006

CITY OF HARTLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS

- I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by either of two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - It is our practice to cross train each employee on all aspects of our office. Each employee is assigned specific responsibilities. The cross training is used primarily to allow for vacations and unexpected illnesses. We have reviewed our operating procedures and believe we have obtained the maximum internal control possible under the circumstances.

Conclusion - Response accepted.

- I-B-06 Approval of Time Sheets - We noted time sheets had no indication that they had been reviewed and approved prior to the preparation of the payroll.

Recommendation - Time sheets should be maintained for all City employees. Time sheets should be approved and initialed by the employee's supervisor or by an independent official who is not involved with payroll.

Response - This has been implemented with all employees filling out time sheets and being approved and initialed by the employee's supervisor or somebody not involved with payroll.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting:

- II-A-06 Certified Budget - Disbursements during the year ended June 30, 2006, did not exceed the amounts budgeted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF HARTLEY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting: (Continued)

- II-D-06 Business Transactions - We noted no business transactions between the City and City officials or employees.
- II-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-06 Deposits and Investments - No instances of non-compliance with the deposit and investment policy were noted.
- II-H-06 Revenue Notes - The City has established the sinking and reserve accounts required by the electric, water, and telecommunication revenue note resolutions.
- II-I-06 Excess Balances - The following funds have balances at June 30, 2006, which are in excess of one year's expenditures:

Special Revenue - Road Use Tax
 - Local Option Sales Tax
 - Library Expendable Trust

Recommendation - While it appears that these funds may have excessive balances, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - Road Use Tax - We have seen the cost of street improvements increase substantially. This alone has forced us to accumulate the necessary revenue to complete our street improvements.

Local Option Sales Tax - This fund is being accumulated for demolition of nuisance property and will be transferred to Economic Development/Special Projects to be paid out once that project is completed.

Library Expandable Trust - This amount was received from an estate and it will be disbursed according to the library's needs as determined by their board.

Conclusion - Response accepted.